

From the Desk of the Comptroller

We are in the midst of the most serious economic situation since the Great Depression. Working families are being stretched beyond their means as the price of food and energy steadily increases. Adding insult to injury, new jobs are more difficult to find, home values continue to decline and taxes have increased.

As a result, people are tightening belts and the state must do the same. Just this month, the Board of Public Works authorized cuts of \$400 million in state spending. Come December, we will likely need to do another round of cuts in order to prepare for next year's budget – cuts that will be necessary regardless of what voters decide on November 4.

In working to help solve this deficit, my office has offered innovative solutions to bring in revenue. Recently, I announced another victory – resulting in millions of dollars coming back to Maryland – in our battle against corporations trying to shelter their income with Delaware Holding Companies,

and more significantly, our first assessment and collection from our action to close the “captive” REIT loophole.

We are also moving forward with implementing a new tax system that, once online, will yield an additional \$100 million each year in taxes that are currently being avoided. We will continue to be vigilant in our pursuit of those who avoid paying Maryland taxes, leveling the playing field and making sure that everyone pays their fair share.

These initiatives, along with streamlining our government spending and operations, can help steady our volatile economy and lead to lasting economic prosperity. However, if we are to successfully manage the consequences of this downturn, we must get to work now on a comprehensive solution to ensure that we as a state do not live beyond our means in these tough times.

Peter Franchot



Corporate Reporting Deadlines Amended

The corporate reporting deadlines for tax years 2006 and 2007, originally scheduled for October 15, have now been extended. All tax year 2006 returns are now due no later than December 1, 2008. Tax year 2007 returns are now due December 1, 2008 or seven months after the original due date of the corporation's Maryland tax return, whichever is later.

The corporate reporting requirements stem from legislation passed by the General Assembly during the 2007 special legislative session, and amended during the 2008 regular

session. On October 14, the Joint Committee on Administrative, Executive and Legislative Review held a hearing on the emergency regulations implementing the statutory corporate combined reporting requirements. The filing amendments should be read in conjunction with the Comptroller's regulations, both of which can be found at www.marylandtaxes.com.

The new reporting requirements apply to taxable years beginning after December 31, 2005. The reports are only required through tax year 2010. No action is required by taxpayers to receive the reporting extension.

\$\$\$ Revenues

The 'Tax Man' Gives Back



Over the past several months, Comptroller Franchot and members of his unclaimed property unit traveled to county fairs, festivals and homes across Maryland helping to reunite more than 850 people with nearly \$400,000 of lost treasure.

The agency had a booth at a dozen events, including for the first time at Sunfest in Ocean City as well as returning to the traditional summer venues including the State Fair in Timonium. At the fair,

nearly \$291,000 was returned to more than 500 people, with one person claiming nearly \$24,000 in unclaimed property.

Financial institutions, utilities, insurance companies and other corporations are required to report to the Comptroller any bank accounts, security deposits, wages, insurance benefits and contents of safe deposit boxes that have been unclaimed after three years.

Along with the agency's outreach at summer fairs and festivals, Comptroller Franchot also traveled across the state to personally present checks to individuals. Earlier this summer, he presented a check for \$2,300 to a Baltimore woman as well as handing over \$1,932 to a Bishopville resident this August.

"With the economy struggling, our efforts help provide people with a little ray of sunshine in these tough times. However, there is always more work to be done to help Marylanders claim the more than \$708 million in property that is rightfully theirs," said Comptroller Franchot.

Since the beginning of this year, the Comptroller's Office has returned \$36 million total to more than 33,000 people. To check for unclaimed property, search the database at www.marylandtaxes.com.

Filing Extension Granted for Hurricane Effected Region

In response to the impact of Hurricane Ike on the Gulf region, Comptroller Franchot has extended the state tax filing and payment deadlines to January 5, 2009, for individuals and organizations which may temporarily reside or have businesses in the disaster area.

Taxes that were originally due on or after September 15, 2008, but before January 5, 2009, including individual estimated tax returns, corporate tax returns, and extended individual returns are eligible for the program.

Effected paper returns sent to the Comptroller's Office should be marked "Hurricane Ike," while those who choose to file electronically should enter action code "911" to avoid incurring late filing penalties.

The extension will be granted only to individuals and businesses located in the Texas counties and

Louisiana parishes that the federal government declared to be Presidential Disaster Areas.

In Texas, the counties included: Angelina, Austin, Brazoria, Chambers, Cherokee, Fort Bend, Galveston, Grimes, Hardin, Harris, Houston, Jasper, Jefferson, Liberty, Madison, Matagorda, Montgomery, Nacogdoches, Newton, Orange, Polk, Sabine, San Augustine, San Jacinto, Trinity, Tyler, Walker, Waller and Washington.

The Louisiana parishes included: Acadia, Beauregard, Calcasieu, Cameron, Iberia, Jefferson, Jefferson Davis, Lafourche, Plaquemines, Sabine, St. Mary, Terrebonne, Vermilion and Vernon.

Taxpayers can download state tax forms and find helpful information by visiting the Comptroller's Web site, www.marylandtaxes.com or by calling 1-800-MD-TAXES for free state tax help Monday through Friday, from 8 a.m. until 5 p.m.

'REIT' Laws Enforced

Comptroller's Crackdown on Tax Cheats Yields Millions

Comptroller Franchot announced in mid-October two major corporations are paying nearly \$12 million to the state in avoided taxes as the result of his agency's aggressive enforcement of Maryland's tax laws, including the first settlement ever from a change in the way so-called "captive" Real Estate Investment Trusts (REIT) are treated for taxation purposes.

Last year, Franchot announced that his office would begin auditing corporations trying to avoid paying taxes by using "captive" Real Estate Investment Trusts, whereby companies place their holdings in real estate trusts and take unauthorized deductions. The Comptroller's administrative action was complimented by legislation enacted by the Maryland General Assembly in the spring of 2007.

The \$10.8 million dollar payment from the corporation in question marks the first case in which an audit has been completed and a tax liability settled in a "captive" REIT case. The agency currently has a pending \$5.7 million assessment in a separate 'REIT'

case and several audits are underway involving this type of tax-avoidance scheme.

"My agency took the lead in closing this tax loophole and has been tireless in their pursuit of the money that is owed the state of Maryland by companies exploiting it," Franchot said. "As hardworking families struggle to make ends meet, we are going to make sure that everyone is paying their fair share."

In the other case, the Circuit Court for Baltimore City affirmed an April 2008 decision of the Maryland Tax Court, which found Classics Chicago, Inc., a subsidiary of the well know retailer, Talbots, Inc., to be liable for corporate income tax for 11 years, from 1993 to 2003.

The Maryland Tax Court ordered Classics to pay the state \$1,092,336 in back taxes along with interest and 10 percent in penalties. This case was the most recent victory for the Comptroller's Office in an aggressive effort to crack down on corporations avoiding taxes using Delaware Holding Company tax schemes.

Certificate of Excellence



In September, Comptroller Franchot was awarded a Certificate of Achievement for Excellence in financial reporting by the Government Finance Officers Association (GFOA). The prestigious award, which is the highest form of recognition in

the area of governmental accounting and financial reporting, was given for Maryland's fiscal year 2007 Comprehensive Annual Financial Report (CAFR).

The GFOA is an internationally-recognized nonprofit association serving more than 17,500 government finance professionals. The Comptroller's CAFR was judged by an impartial panel, with more than 3,600 others, and met the organization's highest standards by clearly communicating the state's financial story in the "spirit of full disclosure." The agency has won the award for 29 consecutive years.

REVENUES

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Office of Communications
PO Box 466
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410-260-7300 (voice)

TTY users call via Maryland Relay at
711 or 1-800-735-2258

Editor: Warren Hansen
(whansen@comp.state.md.us)

Staff Writer: Caron Brace
(cbrace@comp.state.md.us)

Graphics/Layout: E. Jeannie Wimbush
(ewimbush@comp.state.md.us)

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REVENUES

Federal-State Tax Institutes Coming in November

The next series of Federal-State Tax Institutes will be offered at four Maryland locations next month:

Monday, November 3

Holiday Inn
Frederick, Md.

Wednesday, November 5

Krystal Q Reception Hall & Catering
Easton, Md.

Monday, November 10

Martin's West
Baltimore, Md.

Thursday, November 13

Martin's Crosswinds
Greenbelt, Md.

The seminars are sponsored by the Internal Revenue Service (IRS) and the Maryland Comptroller's Revenue Administration Division.

The institutes, now in their 34th year, will consist of a series of workshops explaining new developments in federal and state tax law and other reporting requirements for tax preparers and practitioners.

Free parking is available at each location. Each session will be conducted during the hours of 8:30 a.m. to 5 p.m. Registration and check-in will begin at 7:30 a.m. The cost is \$90 to participate.

To sign-up by mail, download and complete the registration form and send it along with the payment to:

**Comptroller of Maryland
Revenue Administration Division
P.O. Box 2031
Annapolis, MD 21404**

Mail-in registrations must be received one week prior to the seminars. For more information, please call 410-260-6213, Monday through Friday, 8 a.m. to 5 p.m.

Annapolis, MD 21404-0466
PO Box 466
Goldstein Treasury Building
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